Bitcoin or Gold: Better Way to Play This Pullback?

Description

Bitcoin (CRYPTO:BTC) and the rest of the cryptocurrency market have taken a massive uppercut to the chin of late, falling alongside growth and almost everything else in the market these days. Undoubtedly, the recent selloff in Bitcoin should ring some alarm bells in the ears of investors. The popular crypto asset has been touted as the next gold, or millennial gold, by many of its early adopters. However, I've noted in numerous prior pieces to be careful when thinking about swapping precious metals for Bitcoin.

Compared to gold, Bitcoin is still in its early days. Yes, Bitcoin has come a long way in its more than decade-long history. But just look at how the asset has held up during past market corrections and crashes. It has traded like a speculative stock at best during tough times.

Bitcoin crumbles alongside stocks

During the 2020 stock market crash, Bitcoin amplified market losses. And this time around, it looks to be doing the same. At writing, Bitcoin is diving below US$29,000 per coin. A full-blown bear market could be around the corner for stocks. And Bitcoin could have much farther to fall if the markets can't reach any sort of bottom.

Indeed, Bitcoin may be a portfolio diversifier, but it introduces considerable beta, given the crypto's recent action. A case could be made that Bitcoin is no better than a speculative tech stock, let alone a secure place to stash cash.

Moving forward, I expect more pain for Bitcoin. It could test US$20,000 in a matter of weeks. Though dip buyers hope for a floor of support, I wouldn't be shocked if this is the start of crypto's cyclical downswing. Crypto booms, and it busts. That's just its nature.

Gold is also cyclical and is only worth as much as what someone else is willing to pay for it. There's a fixed amount, and it doesn't produce anything. Unlike Bitcoin, though, it's not as volatile, and it can actually reduce beta during market meltdowns.

Bitcoin now falling faster than stocks

Back in 2020, I slammed Bitcoin for its positive correlation to stocks during the market selloff. Instead, I praised gold as a safer alternative asset to own. Gold and even bonds crumbled like a paper bag during the worse of the 2020 selloff. However, gold declined to a lesser extent, and it was quick to bounce back.

Although it's hard to tell if either Bitcoin or gold will recover so quickly this time around, I'm at least comforted by gold in that it's unlikely to suffer from +80% losses in a hurry. Could gold retreat 20-30% in a bear-case scenario? Sure, but history suggests that few other assets match the gold standard when the going gets tough.

A gold miner ETF to hedge your portfolio

Currently, I like **iShares S&P/TSX Global Gold Index ETF** (TSX:XGD) for gold exposure. The ETF holds many top gold miners that should profit greatly from gold's resilience. Though gold has seen its rally cool off, at the very least, it's holding its value better than almost anything else these days.

The XGD is going to be volatile since it's levered to the price of gold. That said, many of the miners within the ETF are well positioned to make it through the minor fluctuations we've seen in gold. The same can't be said for Bitcoin miners.

At writing, the XGD is down over 18% from its 52-week high. At $19 and change per share, it seems like broader market fear and panic has wrongfully spread to Canada's top gold miners.

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Date
2025/06/30
Date Created
2022/05/14
Author
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